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RR RUEHWEB

DE RUEHTL #0499 2111340
ZNR UUUUU ZZH
R 301340Z JUL 07
FM AMEMBASSY TALLINN
TO RUEHC/SECSTATE WASHDC 0043
INFO RUCPDOG/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHHE/AMEMBASSY HELSINKI 5217
RUEHRA/AMEMBASSY RIGA 2917
RUEHVL/AMEMBASSY VILNIUS 6667

UNCLAS TALLINN 000499

SIPDIS

SIPDIS

STATE FOR EEB/IFD/OIA CAROLINE ROBERTS, EUR/NB
KATHERINE GARRY, AND EEB/CBA
HELSINKI FOR SCO BRIAN MCCLEARY

E.O. 12958: N/A
TAGS: [CASC](#) [EINV](#) [KIDE](#) [OPIC](#) [PGOV](#) [EN](#)

SUBJECT: 2007 REPORT ON INVESTMENT DISPUTES AND
EXPROPRIATION CLAIMS - ESTONIA

REF: A) STATE 55422 B) 06 TALLINN 501

11. (U) The United States Government is aware of one
(1) previously disputed claim of U.S. persons
against the Government of Estonia, which was
resolved in January 2007.

a. Claimants A and B.

b. The dispute began in 2005.

c. Claimants A and B were U.S. corporations that
owned 27.88 and 5.46 percent, respectively, of
Baltic Rail Services (BRS), an Estonian corporation
which owned 66 percent of AS Eesti Raudtee, or
Estonian Railways (ER). A Netherlands investment
company owned 33.3 percent of BRS. ER operates a
vertically integrated railroad network in the
Republic of Estonia and is the primary rail freight
operator in the country. BRS gained controlling
stock interest in ER as a result of the Estonian
Government's privatization of Eesti Raudtee in 2001.
At that time, the Government of Estonia (GOE)
retained a 26 percent stake in ER. The remaining
investors in ER were Estonian nationals.

12. (U) Claimants A and B, along with their
investment partners, alleged that the GOE had
adopted a series of measures that substantially
impaired the value of their investments. The
claimants said that the political turmoil
surrounding the company had decreased the market
value of the investment to a 2006 estimate of USD 35
million (down from an estimated total U.S.-
originated investment value of 135 million in 2004).

13. (U) On April 20, 2006, the Estonian Cabinet of
Ministers took a unanimous decision to give then-
Minister of Economy Edgar Savisaar the mandate to
start the process of terminating the 2001
privatization agreement which had allowed the
claimants to buy their share of the railway system.
The claimants, through ER, initially attempted to
resolve these issues through a series of cases in
local courts and two arbitration claims before the
Stockholm International Arbitration Court, by
involving the Directorate General for Energy and

Transport of the European Commission, and by bringing claims under the respective Netherlands and U.S. bilateral investment treaties with Estonia at the International Centre for Settlement of Investment Disputes (ICSID). The claimants also requested, and received, advocacy from the U.S. Embassy in Tallinn for a transparent and equitable resolution of the dispute which would respect the interests of all parties.

¶4. (U) In October of 2006, ER and the Ministry of Economic Affairs and Communication announced that they were in the process of negotiating a commercial re-purchase of BRS' outstanding shares by the GOE. By December, the terms of the deal were finalized, with both parties settling on a purchase price, and on the termination of all outstanding legal procedures underway at the time in arbitration or with the ICSID. In January 2007, the re-purchase of BRS' 66 percent stake in ER was completed by the GOE for a final price of EEK 2.5 billion (USD 192 million)

¶5. (U) The United States Government is not aware of any other outstanding claim of a U.S. person against the Government of Estonia.

PHILLIPS